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CURRENT ECONOMIC CONDITIONS BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

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SUMMARY*

While this month's district Redbook reports are conflicting on several points, their general tenor must be judged pessimistic. Nearly half the districts reported increasing signs of recovery, but an equal number characterized business and employment conditions as unchanged or deteriorating from January-February levels. When weighted for firmness of conviction, the April responses emerge as clearly bearish.

On the employment front, the Cleveland, New York and Chicago districts reported that unemployment seems to be rising, while most other districts reported no change or nearly imperceptible improvement. Several districts cited continued layoffs in a wide variety of occupations, and others described continuing efforts at payroll trimming via reduced recruiting activity and inaction in replacing normal losses from attrition. Labor militancy in current and forthcoming contract negotiations was reported to vary widely among districts.

Consumer caution remains readily apparent in all but the Richmond district. Even allowing for the later Easter this year, March retail sales have been disappointing. Consumer cost consciousness remains conspicuous, and no convincing evidence of a recovery in auto demand can be found. Individual district respondents continue to stress awareness of unemployment and layoffs as the major explanatory factor in consumer behavior, suggesting that there is no compelling reason why a consumer resurgence should be imminent.

In the manufacturing sector, several districts reported that 1971 shipments levels in major regional industries are showing some pickup over

*Prepared at the Federal Reserve Bank of Boston.

midwinter lows. In many cases, however, increased shipments are proceeding at the expense of diminished backlogs. Chicago and Boston districts both reported severely depressed conditions in the machine tool industry, with no current prospects for improvement over 1971. No common trend in industrial pricing is identifiable as district Directors report news of increased price shading as well as expected price rises. Five districts report continuing austerity in industrial capital spending plans, although the Atlanta district discerns the early signs of a recovery in this area.

Most districts report a substantial pickup in residential mortgage demand, but only Richmond, San Francisco and St. Louis were able to attribute this to definite strength in residential construction. Increased mortgage demand elsewhere seems heavily based on a flurry of sales of existing structures. New York district respondents are less optimistic about single family residential construction activity now than a month ago.

Loan demand at commercial banks was reported higher in three districts, and unchanged to lower in five others. Deposit inflows are uniformly characterized as heavy relative to loan demand. Six districts now report cuts in passbook savings rates at major commercial banks, and bankers in other districts are considering cuts while watching market developments. Banking Directors in three districts took note of a developing profit squeeze in the commercial banking sector as a result of interest rate developments. Countering this nationwide trend are banks in the Kansas City and St. Louis districts, which have not dropped rates to date.

Banking respondents in the Philadelphia district expect no substantial declines in long rates over the coming months, citing continuing corporate funding needs and the addition of an "inflationary factor" to projections of borrowing requirements. A Director of the New York bank, on the other hand, noted that SEC registrations for corporate bond issues--while still high--are tapering off and that a lighter calendar can be expected to develop. Academic respondents in the Boston district concurred with the latter view, projecting a fall in long-term corporate rates to below 7 percent by summer.

FIRST DISTRICT - BOSTON

Preliminary end-of-month reports strongly suggest that March is turning out to be a month of "no change" at nearly all levels of business and industry. These results come as a disappointment, as most retailers and manufacturers seem to have pinned their hopes for a recovery from mid-winter levels of activity on the February-March period.

Area financial institutions face much the same conditions that prevail elsewhere in the nation. Deposit flows continue strong, even at institutions which have dropped offering rates on deposits. Passbook rates have been cut at individual large commercial banks in both Massachusetts and Rhode Island, and several more seem to be on the verge of following. To date no major regional thrift institutions have moved down on rate offerings, although at least one is known to be planning a cut to 4 1/2 percent on regular passbook accounts on April 1. Our commercial bankers report a very slow demand for auto financing, with one large New Hampshire bank reporting auto sales in the Manchester region running 15 percent below the first 3 months of last year. Mortgage applications, on the other hand, are now running at increased levels at nearly all institutions, and the downward trend in mortgage rates seems to be slowing.

Reports from area retailers indicate unusual slowness in the late February-March period, even compared with January levels of sales. At the manufacturing level, two of our respondents noted a newly developing weakness in foreign levels of demand. This development had not previously been reported, and is taken quite seriously by the firms involved in light of the prevailing domestic sluggishness. Two leading regional machine tool producers were contacted, and concurred in their expectations that the dollar volume of 1971 shipments will fall below the depressed levels of 1970.

Professor Wallich expects some decline in long-term rates by mid-summer, as the current level of corporate demand for loanable funds is not commensurate with sluggish consumer behavior and reasonable projections of corporate profit levels for 1971. He sees 6.80 to 6.90 percent as a 1971 floor for AAA corporate rates, however, and suggested that the historical yield spread between corporate issues and mortgage rates may preclude much further decline in the latter.

Wallich expressed the view that monetary policy has done about all it can do on the stimulative side, and that the case for further fiscal action is becoming increasingly clearcut. While acknowledging its slowness, Wallich would choose investment stimulus as the preferable fiscal measure.

Eli Shapiro disagreed with Wallich on the likely level of long-term rates by late summer, stating his view that rates on AA corporates will be in the 6.5 to 6.7 percent range by that time. Shaprio feels System policy has been right on the button since last winter, and feels no need for immediate supplementary fiscal action. If, however, consumer demand levels are not stronger by mid-summer he would support a temporary tax cut. Shapiro further expressed his satisfaction with developments in the stock market, stating that the high volume trading combined with frequent price reversals is a healthy situation.

Professor Samuelson had few comments this month apart from suggesting once again that the System should be pushing hard to achieve a higher growth rate in the monetary aggregates.

Professor Eckstein now sees a $22 billion first quarter GNP gain. While this is lower than warranted by the $1043 - 1048 billion school of forecasters, he has not revised his own $1045 billion forecast as he feels the Social Security tax action and recent investment surveys largely offset the first quarter weakness. Noting the DRI projections of a consumer savings rate at 7 1/2 and 8 percent in the first and second quarters of this year, Eckstein sees a definite need for a temporary tax cut at this time.

All four academic respondents commended the System for its recent efforts to work in the long end of the rate structure, and expressed the hope that continued efforts will be made along these lines.

SECOND DISTRICT - NEW YORK

The opinions expressed by the Directors of this Bank and the Buffalo branch and other business leaders in general continued to point to an uncertain economic outlook. On balance, the assessment was: a still cautious consumer attitude; a somewhat less optimistic residential construction picture; little or no improvement in the unemployment situation; and relatively uninspiring prospects for 1971 corporate profits. Sentiments were mixed with respect to the likely volume of further corporate borrowing in the bond market.

In view of most of the Directors and of the retailers that were contacted, the long awaited rebound in consumer spending has not as yet materialized. Indeed, it was generally believed that no real pickup in consumer spending could be expected as long as consumer confidence continued to be adversely affected by the unemployment situation. Several of the respondents, however, felt that given the current high rates of individual savings, a change in consumer mood could well trigger a sharp increase in such outlays.

With respect to residential housing construction the picture painted by the respondents was somewhat less rosy than it had been in earlier months. To be sure, the consensus was that there still remained a shortage of housing for lower and middle income families, and that mortgage money had become more readily available at lower rates.

On the other hand, it was felt that to a large extent the demand for housing was being met by multiple housing units rather than by single family units, with several of the Directors expressing the opinion that the high cost of construction and the increase in property taxes acted as stronger deterrents to single home purchases than the current level of mortgage rates.

Similarly, the Directors in general were less than sanguine regarding the employment situation. Two of the Directors felt the employment picture had strengthened somewhat in the Buffalo area as a result of the resumption of activity at plants providing parts for the automobile industry and increased employment in the steel industry due to strike hedging inventory accumulation. However, the Chairman of the Board of a large New York City bank reported that layoffs were continuing in the airlines, railroad and other industries, while the vice president of the largest firm in Rochester saw no sign of strengthening of the employment picture in his industry. Moreover, the President of a large department store in that city reported that more workers were being laid off "without publicity," and that unemployment was rising. Most of the other respondents expressing an opinion on the subject either saw no improvement or a further weakening in the unemployment picture.

Sentiments regarding the outlook for corporate profits in 1971 also were not particularly optimistic. The Buffalo branch Directors all felt that 1971 profits would be at or above 1970 levels, but well below those of 1969. The Chairman of the large New York City bank regarded the outlook for corporate profits in 1971 as "not too bright," another Director expected 1971 profits to be "flat," while some Directors felt that profits would be lower than in 1970.

Opinions were mixed regarding the prospects for a let-up in the volume of corporate borrowing in the bond market in the near future. The Directors of the Buffalo branch unanimously felt that corporations would continue to tap that market--as well as the commercial paper market--to meet their credit needs, with the paying off of commercial loans continuing at a substantial rate. A Director of the New York Bank, on the other hand, noted that while SEC registrations for corporation bond market borrowings were still heavy in volume, they were lower than a few months ago, and he believed such borrowings would level out. Similarly, the Chairman of the large New York City bank felt that corporate bond market borrowing would not continue at its current pace for very long.

THIRD DISTRICT - PHILADELPHIA

Bankers, businessmen, and Directors in the third district continue to see signs of a modest recovery. However, there is a widespread feeling among them that the recovery will not gain momentum unless a major improvement in consumer and business sentiment occurs and few people that we talked with see such a change on the near-term horizon, barring a more stimulative economic policy.

The modest business expansion which began around the first of the year is continuing in the third district. A recent poll shows that for March nearly five times as many district manufacturers are experiencing increases in new orders and shipments than are realizing decreases. A similar pattern is expected for April. In the same vein, a utility executive in New Jersey reports that there has been a pick up in the industrial consumption of electricity in recent weeks.

Despite this step-up in activity, area manufacturers remain cautious. They do not plan to hire additional employees until the firmness of the recovery is more established. They intend to keep a tight rein on inventories, and they anticipate no increase in outlays for plant and equipment during the next six months.

Area retailers report the course of consumer spending is uncertain at the moment. Easter occurred in March last year and will fall in April this year. Consequently, say local merchants, year-to-year comparisons will be distorted for both months. It will make more sense to combine sales in both months and then compare with the performance of last year, they say.

One large retailer, however, indicated that consumers are still very price conscious. He reported that a recent warehouse sale with substantial markdowns in price was a big success. It is also his opinion that the mood of the consumer is still to forego buying wherever possible.

Consumer caution is apparent in reports from area bankers. The flow of funds into savings accounts continues at high rates. A couple of banks which have cut passbook rates report that the reduction has had no impact on their savings flows. All of the banks contacted indicate that they are in the midst of a profit squeeze. Further, they see no relief coming from an increase in loan demand at least for the near term.

Projections of long-term interest rates vary from bank to bank; however, nobody expects substantial declines in long-term rates during the coming months. For one thing, they expect funding to go on for a while longer; for another, they believe that lenders and borrowers will continue to build an inflation factor into their calculations.

Although Directors and others are willing to talk about current business conditions, they are stressing more and more the importance of psychological conditions as the key to the economic outlook. There is general agreement that the recovery will not pick up steam unless consumer sentiment is uplifted. One Director says, "It's very hard to convince the consumer that the economy is still growing when he looks around and sees people unemployed, plants still laying off workers, industrial production dropping off, and retail sales modest". Another Director pointed out that "rising taxes, rising Blue Cross rates, rising utility costs, etc. are enough to make him cut back on his spending even without the fear of unemployment". Still another Director indicated that the Administration's extremely optimistic forecast for 1971, now widely discredited, has actually had a negative impact on confidence. "By being so wide of what can reasonably be expected, people believe that the Administration is trying to talk them into a recovery that really isn't going to happen", he added.

On how to improve confidence, many businessmen and some Directors are not optimistic about the role of monetary policy. "Pushing on a string" and "you can lead a horse to water, but you can't make him drink" are commonly heard analogies about the role of monetary policy in restoring confidence. An increasing number of people that we talked with believe that a reduction in personal taxes along with a tougher stand against wage and price increases may be necessary if confidence is to be restored and the recovery sustained.

FOURTH DISTRICT - CLEVELAND

It is difficult to assess the underlying economic trends in the fourth district at the present time. Current statistics are distorted by the effects of strike-and price-hedge buying in the steel industry and the rebound in motor vehicles and supplying industries. After allowing for the steel and auto situations, there is little evidence pointing to a strong recovery in economic activity in the area, especially in the capital goods industries. The reports of our Directors reflect the sluggish pace of domestic economic conditions, while business acitvities of several Directors' firms in foreign markets continue to expand.

The district index of manufacturing output (based on electric power consumption) reached what may have been a "cyclical low point" in November 1970 and turned up in December; the index has continued to rise in January and February. Practically all of the February gain stemmed from two industires: primary metals and transportation equipment. The results of our monthly survey of manufacturers follow a parallel path: the recent "low point" occurred in November; an upturn took place in December and continued through February. The magnitude of the rebound in activity from the November low point (as measured by the behavior of the diffusion indexes) reflects the steel and motor vehicle situations to a considerable extent. The most recent survey, conducted during the first two weeks of March, revealed a persistence of cautious hiring policies on the part of most firms, despite expectations that business would continue to improve in March.

Labor market statistics for district areas are at some variance with the apparent improvement in manufacturing during February that was suggested by our index of manufacturing and our survey of manufacturers. Manufacturing employment in the district declined almost as much in February as it increased in January. Furthermore, while the insured unemployment rate leveled off in February, following a sharp decline from November to January, there are indications that unemployment in the district will show a slight increase in March.

Steel industry economists in the district reported that steel consumption appears to be rising more slowly than was generally expected. Machinery accounts are not as active as consumer goods industries in terms of placing new orders for steel. One major steel firm reported that orders peaked in January; another major firm indicated that the peak was reached in February. The industry economists also indicated that recently announced price increases (effective May 1) on a variety of steel products are an important factor in the current increase in steel shipments.

Our Directors' comments about business in their particular industries reflected the generally lackluster performance of most sectors of the economy, especially the capital goods sector. One Director, however, noted that public utilities were stepping-up orders for new equipment. Two Directors associated with large office equipment and computer manufacturers reported limited signs of a pickup in certain lines during February. Another Director, representing a medium-sized diversified glass products manufacturer, reported that consumer markets are still sluggish; the strong upturn in residential construction, however, has resulted in a substantial increase in demand for glass products used in new homes. Demand in foreign markets remains brisk, according to several Directors, and, in some instances, is partly offsetting weakness in domestic markets.

Directors from both large and small banks commented on continued, substantial inflows of deposits, suggesting that consumer savings remains high. The banker-directors reported that banks are experiencing a squeeze on profits and, as a result, are cutting rates on savings deposits. (Savings and loans in the district are also posting lower rates on savings accounts.)

FIFTH DISTRICT - RICHMOND

Surveys of businessmen and bankers in the fifth district indicate general agreement on the following points: (1) further improvement in manufacturers' new orders and shipments with a decline in backlogs of orders; (2) continued improvement in retail sales and automobile sales; (3) softness in manufacturing employment, but some improvement in retail trade and service employment; (4) some backup of prices in manufacturing and continued upward pressure on retail and service prices; (5) strong improvement in residential construction activity; (6) further improvement in the demand for mortgage loans and consumer loans and slight improvement in business loan demand.

Improvement noted last month in district manufacturing activity has continued through March according to most manufacturing survey respondents. Respondents in nonferrous metals, steel, electrical equipment, containers, chemicals, and hosiery indicate an increased volume of new orders and increased shipments. Backlogs of orders have declined during March.

Retail sales of goods and services continue to improve according to district bankers and retailers. Automobile sales in March continued the rapid advance begun in January. Both retail inventories and manufacturers' inventories are reported to have increased slightly further during the past four weeks.

Employment in manufacturing industries remains soft in the district. Reporters in textiles, furniture, chemicals, and electrical equipment continue to report employment down on balance. Hours worked per week also continue to be off according to manufacturers. Reports of further declines, however, are less numerous than they were last fall, and the impression expressed by some respondents that the employment situation is stabilizing seems reasonable. District retailers and bankers report some improvement in the employment picture.

The price situation among district manufacturers is reported to have changed somewhat during the recent four-week period. Earlier surveys this year showed price declines outnumbering price advances among manufacturing respondents. A slight reversal occurred during March, however, as important producers in chemicals, building materials, and steel marked prices up. Retailers and respondents in the service industries report prices continuing to rise on balance. According to district manufacturers, wages remain relatively stable during March.

Residential construction is reportedly continuing to improve sharply over the district at large. Without question, this is the most ebullient sector of the fifth district economy at present. Nonresidential construction is reported not to have changed significantly during the past four weeks. Some respondents indicate, however, that they expect a considerable increase in road and other non-building government construction in their respective areas in order to alleviate unemployment.

Consumer loan demand and mortgage loan demand at district banks are reported to have improved further during March. Demand for business loans has improved somewhat from the reduced levels of the past four months, but is still characterized as down on balance by district bankers.

The general outlook of survey respondents continues to improve. Settlements were reached in March in several significant strikes which had adversely affected the district economy since last fall. These strikes were in coal mining, textile products, and metal products, all in West Virginia.

Comments received from respondents indicate growing optimism concerning construction and the employment outlook. The latest survey shows a continuation of the cautious attitude of manufacturers concerning capital spending plans. A few respondents even indicate that further downward adjustments of plans have been made recently.

SIXTH DISTRICT - ATLANTA

Leading businessmen and bankers around the district seem to have become somewhat more optimistic about the economic situation--present as well as future. A growing number feel that the business picture has brightened somewhat and note a pickup in announcements of capital spending plans. Scattered declines in consumer CD and passbook rates are expected to spread. The outlook consensus of several economists in our region corresponds more closely to those of private economists than that of the Council of Economic Advisers.

Businessmen have specifically described business as "good" in such cities as Baton Rouge, Jackson, Orlando, and Knoxville. Recently started and prospective construction projects are a common cause for optimism. Included in such projects are a convention center, shopping mall, and bank building in Knoxville and a shopping center and retail distribution facility elsewhere in Tennessee; a school, apartment complex, and bank building in Birmingham; and a $100-million power plant in Mississippi. In the Jacksonville area, it has been reported that "A tremendous number of large real estate developments have recently been announced or are in the immediate planning stages." These include two large office buildings, a residential complex for retired persons, and a high-rise apartment. It was also predicted that ten new plants would be under construction in the Jacksonville area by the end of the year. A rash of plant announcements are also expected in central and east Tennessee. In the New Orleans area, a $100-million expansion of a medical complex is starting and construction is expected to begin shortly on a domed stadium. Construction of a basketball coliseum has started in Atlanta, and a large air freight center has been announced. Also, two modular home plants have been announced, one on the Gulf Coast and one in South Georgia. Resumption of full production has occurred at a textile plant in Tennessee and at tire plants in Tennessee and Alabama.

On the other hand, businessmen are reported to be very profit conscious and are making every effort to reduce work forces. Further layoffs have recently been announced in the aerospace industry. Industrial growth has reportedly ceased along the Mississippi River. Three textile mills have closed. A continuing inability to obtain long-run contracts for natural gas is reportedly hindering plant location in the New Orleans area.

Recent price increases have occurred in hospital and auto insurance and water rates, but the incidence of price increases seems to have lessened.

The largest savings and loan association in Florida and a savings and loan in Nashville have reduced their peak rates on certificates. Three banks, one in Miami and two in Nashville, have reduced their passbook rates from 4 1/2 percent to 4 percent. Rate reductions are expected to become general in the Nashville area.

A group of academic and professional economists in the Atlanta region expects about a $1,045-billion GNP this year, a 5.8 percent average unemployment rate, and more than a 4-percent increase in prices. All of the economists thought that at least a 9-percent expansion of the money supply would be required to achieve a $1,065-billion GNP, but none advocated that largre an increase in the money supply because they considered it inflationary.

SEVENTH DISTRICT - CHICAGO

Views of informed persons in the seventh district continue to show a wide variation as to the strength of the uptrend likely in the remainder of 1971. Forecasts of GNP for 1971 range from $1,040 billion to $1,060 billion. Unemployment continues to rise. Labor disputes are frequent and difficult to negotiate. A flurry of price advances were announced in March, perhaps reflecting expectations that controls may be in prospect. The availability of funds continues to improve, but lenders are concerned with the quality of credit applicants.

As a result of deterioration in Madison, Wisconsin, and Des Moines, Iowa (both state capitals) there are, currently, no relatively strong labor markets left in the seventh district. Unemployment in most centers is the highest in seven or eight years, with rates ranging from 4 to well over 10 percent. The mayor of Detroit believes his city's unemployment rate is 14 percent, with an "inncer city" rate of 25 percent. In the Chicago area (4.2 percent unemployed in February) employers report job applicants double last year's level, while job openings are limited to hard-to-fill positions. Many job applicants are "over-qualified" in terms of previous salaries. Plant closings, cost-cutting programs, returning veterans, and wives desiring to supplement family income continue to swell the number of job seekers. In no area is there evidence of a significant employment pickup except in home building and other seasonal activities.

Price advances announced in March--many to be effective in the future--were extremely numerous, in contrast to a lull in January and February.

A wide variety of products are involved, including chemicals, building materials, containers, and electrical components. The increased frequency of price announcements was so dramatic as to suggest that some businesses are attempting to establish a higher base for possible price controls.

The important district capital goods industries show little promise for the near future. Demand for construction machinery is relatively favorable. Demand for equipment related to pollution control is vigorous. But machine tool orders remain dismal, and demand for farm machinery is very weak. One large producer of farm implements made no attempt to increase output to offset a recent three-week strike. There are persistent rumors that two historically-important producers of farm equipment intend to abandon the field.

Opinions vary substantially as to the prospective strength of demand for domestic new cars. It now appears that the influx of imports will not be stemmed by the new domestic subcompacts. The Japanese car producers are only beginning to tap potential U. S. markets. Meanwhile, quality questions, and availability of foreign-made components, may limit sales of domestic subcompacts.

The volume of real estate transactions has increased sharply as credit availability has improved. Prices of used houses have increased recently after weakening in 1970. Project builders again are pushing developments that had shut down last year. Some new large-scale recreational area projects are being activated. New plans for manufacturing and commercial construction, however, are at a low ebb.

Commercial banks and S&Ls are being flooded with funds--"More than we can use." Business loan demand is said to have weakened again in March.

Repayments of policy loans at life insurance companies have increased sharply. Apparently, many of these were business loans, or loans used to purchase short-term securities when market rates were above the policy loan contract rate.

There is general expectation that rates on long-term corporates will tumble in the next few months. Two banks in the Chicago suburbs cut rates paid on savings recently, but no action has been taken by the large banks.

EIGHTH DISTRICT - ST. LOUIS

A moderate uptrend of business in the eighth Federal Reserve district continues, according to a number of leading businessmen interviewed. Most manufacturers see signs of business gains as the year progresses. Retail sales continue to be sluggish, although on a seasonally adjusted basis they are somewhat above levels of last autumn. Home building continues to expand. Unemployment remains relatively high, and few firms report net hirings. Layoffs, however, seem to be at an end. Capital spending plans have been scaled down from levels planned a year ago.

Retail sales are somewhat above levels of the autumn months on a seasonally adjusted basis but have failed to maintain the sharp increases achieved just prior to Christmas. The false Christmas signal and the failure of sales to recover as quickly as they did following some previous slowdowns have been disappointing to some retail firms. Nevertheless, retail inventories have been maintained at moderate levels.

Residential housing construction is continuing to improve over the very low levels of last summer. Reporters throughout the district indicate sizable gains in low-cost home construction.

Commercial and industrial construction is still described as "soft." The few new building projects reported are for nonprofit organizations, such as hospitals, schools, and homes for the aged.

Manufacturing firms are generally becoming more optimistic. Orders are reported to be rising, and retrenchment plans for employment and capital investment have been largely completed. In the clothing industry production of knit goods is booming, but limited by a shortage of knitting machines. Demand for synthetic fibers is increasing but remains weak judging by long-run growth trends. Some other lines of manufacturing, such as brewing, feed, and dairy processing, have not experienced a decline in activity during the current slowdown.

The labor picture is little changed from a month ago. Unemployment remains relatively high, and no early improvement is expected. Apparently, most employment increases in recent weeks have been offset by additions to the labor force. Few firms are actively recruiting help. Some firms which have in prior years regularly recruited at college campuses report that no recruiting is being done this year.

Capital investment may have reached a trough. The combination of high interest rates and sharply declining profits last year quickly dampened investment spending plans of a number of larger manufacturing companies in the district. The rising optimism and declining interest rates of recent weeks, however, are reawakening some plans for additional investment. One large manufacturing firm reported that its investment will bottom out in the first half of this year and moderately expand in the second half, largely due to some expectations of profit improvement.

Loan demand in the district continues to be weak, and liquidity of banks is very high. Some firms report that lending rates are even lower than announced levels. To date, no district banks have announced a decline in rates paid on savings or small time deposits, but numerous complaints of a profit squeeze have been heard.

NINTH DISTRICT - MINNEAPOLIS

The general feeling among area businessmen and bank Directors is that consumer confidence in the ninth district is still at a low ebb, and there are few indications that it has improved over the last month or so. Business loan demand continues to be very strong while consumer loan demand is still weak. Price shading at both the wholesale and retail level does not seem to be any more prevalent than it was a few months ago, but there are some indications that firms are determining their prices more carefully.

There is little to suggest that consumer confidence in this district has changed over the last month. With three exceptions, the Directors of this bank were not aware of anything that would point to an imminent rise in consumer spending, two Directors who could not cite anything specific had a general feeling that consumer spending in their areas was generally better than had been anticipated. Another also felt that although there was some firming up in his area, the mix of expenditures has been changing. For example, motorcycle and snowmobile dealers have been experiencing record sales, but automobile purchases are down. Housing is the only district sector that seems to be gaining strength. Two Directors stated that real estate loan activity in their banks was increasing and more people were contemplating home purchases in their areas. One, however, noted that most of the turnover was in existing housing and new construction had not yet begun to improve. In contrast to the generally weak business loan demand in other parts of the country, the demand for business loans in the ninth district appears to be quite strong. Conversations with three reserve city bankers revealed that the rise in their business loans is stronger than they had anticipated, and some of these people felt that the recent cuts in the prime rate were unjustified, at least for their banks. One Director, who is also the president of a reserve city bank, said that although he keeps expecting his bank's outstanding loan balances to fall, they keep rising to new highs. He feels that a possible explanation for this phenomenon is that his national customers have tended to ignore the corporate bond market as a source of debt funds and instead are relying on banks for their borrowings.

Three other Directors from rural areas in the district also felt that loan demand was picking up. Although they were not sure of the reasons for the strengthening, they were able to cite instances pointing to a rise in loan demand. One South Dakota Director said, for example, that a number of banks in his area had dropped out of participation pools because they were able to use all their loanable funds for local borrowers. Consumer loan demand, on the other hand, has not changed significantly over the past month or so and still seems to be generally weak. While three Directors felt that they have noticed some slight strengthening in their areas, for the most part they could not attribute the change to anything specific.

Despite the strength in business loan demand and the weakness in the consumer sector, most of the softening in interest rates has been in the business sector, primarily because of the reductions in the prime rate. Generally, consumer loan rates have not changed although one Director stated that his bank is shading rates to good customers.

Mortgage rates in the Twin Cities have remained relatively stable over the last month. The going rate on FHA-VA mortgages is now running at 7 percent plus 2-3 points to the seller, and the conventional mortgage rate is around 7-1/2 percent with 25 percent down and 30-year maturities. There is some talk among industry people, however, that the conventional rate will soften because of the recent reductions in mortgage rates in other parts of the country and the strong liquidity positions of district thrift institutions.

Price shading does not seem to be more prevalent in this area, but wholesalers and retailers appear to be watching their prices more carefully. Only one Director was aware of any changes in mark-offs during the past few months, and these were generally limited to office machines. Another commented that he has noticed some firms raising prices but then selectively making concessions. On the other hand, a number of cases of more aggressive pricing and merchandising emerged. In the utility industry, some suppliers have cut prices on transformers and aluminum wire, while several announced price increases have been rescinded because others refused to follow the rise. In addition, retailers are merchandising their wares more aggressively in an attempt to get people into the stores. According to one Director, at least, this practice has been successful in his area, and retail sales have been picking up.

TENTH DISTRICT - KANSAS CITY

A survey of Head Office and Branch Directors, and other area businessmen, suggests that economic conditions in the Tenth Federal Reserve District are improving somewhat. Yet there is recognition that any further unfavorable movement in the Nation's economy might cause a resumption in the economic problems of the District states. Business people in some District states feel that the economic slump reported for the rest of the Nation has not been as severe within their own areas. At the same time, one Director, who reports his state less hard hit by the recent economic slump than the Nation as a whole, feels that a continual bombardment of the local area with a national psychology of recession has made workers and consumers within the state more worried and cautious than they otherwise would be, and than may be warranted by the local economic situation.

The northern states of the District have continued to feel adverse weather conditions which have been reflected in slower improvement in business conditions than would normally be true for this season of the year. In general, the employment outlook seems to be one of some moderate growth in employment but not fast enough to wholly offset expected labor force increases. Thus near-term improvements in the overall unemployment rate within the District are expected to be modest, if apparent at all. District firms are trying to do a better job with fewer people on their payrolls and, at this point, seem to be using attrition rather than layoffs to keep the size of their work forces within bounds.

Construction activity continues to be favorable but remains variable within the District. Residential construction is strong in Colorado, for example, but is reported by some Directors to be currently less strong in metropolitan areas of Oklahoma. A pickup in homebuilding in the Kansas City metropolitan area seems to be definitely under way since settlement of last year's construction strike, with builders starting to build speculatively again. A spokesman for the local homebuilders association suggests that the national figure of two million housing starts for the year seems perfectly possible, even likely, if the Kansas City area's present experience and expected performance is any indication. The housing mix in the Kansas City area seems to be distributed between single- and multiple-family dwellings about as it has been in the recent past. There also seems to be evidence of a tendency toward lower priced, smaller, new single-family houses with fewer frills, among new construction in the Kansas City area.

Two Directors, themselves engaged in the construction industry, commented about labor market and labor relations conditions in that industry within the District. One Director reports that, with this year's construction activity in his area down from last year's better-than-average level, union employment in the area is down to its lowest level in years. This is already apparently making union labor somewhat less militant than before, in the sense that they are showing a willingness to work with nonunion workers on a job and do not press for union labor only. This should, in his opinion, keep costs of construction from rising as much as they might otherwise. He also feels that the President's action concerning the Davis-Bacon Act will have a restraining influence on construction cost increases, especially for construction jobs in smaller towns surrounding a major urban area. The second Director referred to above, who is from another state in the District, also sees some signs of a tempering of union wage demands in the construction industry. Some crafts in Oklahoma City, according to this Director, have recently settled for nominal increases compared with those of the recent past. These types of settlements have resulted because of an apparent feeling by the unions that they have been pricing their workers out of jobs. He feels that other crafts will not even aim so high as the settlement that has been recently completed. He sees no direct effects in this situation of the Davis-Bacon action but suggests that it is more likely to result from such things as fear of direct controls, the possible loss of jobs, and other factors.

Bank loan demand, which was reported as weak in February, appears to have firmed up recently according to District bankers. With building activity picking up in the District, construction loans are showing considerable strength. Consumer instalment loans also are reported to be showing some improvement. A mixed picture, however, is presented by business loans. Loan demand by some of the large national accounts continues to be weak. On the other hand, loan demand by locally based firms is said to be steady to moderately strong. Supporting evidence that overall loan demand in the District may be picking up somewhat is that a number of bankers report a marked increase in overline loan demands coming from their country correspondents.

Banks continue to experience strong deposit inflows in demand and time accounts considering seasonal factors. Rates paid by District banks on large CD's have declined in line with the New York market, while rates paid on consumer CD's and passbook savings have generally remained unchanged during the past month. In many instances, however, banks indicate that they are considering the possibility of lowering their time and savings rates. One bank reported that on its consumer CD's it was now computing interest on a quarterly basis instead of on a daily basis. Nonetheless, the prevailing attitude toward further reductions in time and savings rates is one of caution. Underlying this cautious attitude is the reluctance of bankers to discourage deposit inflows because they generally expect bank loan demand to improve gradually over the coming months.

ELEVENTH DISTRICT - DALLAS

Economic activity in small rural communities in the eleventh district is not likely to improve much this year--in the opinion of bankers at banks with less than $10 million in deposits. Loan demand generally has remained weak in the areas served by these banks even though the banks have ample lendable funds and have reduced their lending rates in recent weeks. The drought conditions in the Southwest have contributed to the continued sluggish economic activity in such rural areas. But economic conditions in the entire district also have shown no real improvement recently.

Most of the bankers surveyed expected economic conditions in their areas this year to remain unchanged from the subdued pace of last year. Of those that did expect some change, the number anticipating a deterioration was slightly larger than the number expecting an improvement. Drought conditions were cited as a major depressant by those anticipating a further decline in economic activity.

The slow economic pace in these areas is reflected in the overall weakness in loan demands at these banks. Most of the respondents reported that, generally, loan demands have remained essentially unchanged since the end of the year. There has been some pickup in the demand for mortgage credit, and to a lesser extent for consumer credit. However, these increases have been offset, at least in part, by a weakening in the demand for business loans.

The relatively small demand for loans occurred in spite of a substantial supply of lendable funds at these banks, a greater willingness to make loans, and recent reductions in lending rates. Most respondents indicated that inflows of funds were far in excess of that necessary to meet prevailing loan demand. In every reported loan category (business, consumer, mortgage, and agricultural), the number of bankers indicating a greater willingness to make such loans far outnumber those less willing to make these loans. Currently, the prime rate at the banks ranges from 5-1/4 to 10 percent, with an average of about 7-1/2 percent. Most indicated that about 10 percent of their loan portfolio was lent at the prime rate and another 25 percent was lent at rates tied to prime.

Most of the respondents do not expect the demand for loans to pick up significantly this year. However, about 30 percent do expect some increase, particularly in the demand for real estate, consumer, and agricultural loans. Virtually none of the bankers expect to reduce their prime rate in the near future.

For the district as a whole, there has been little improvement in economic conditions in recent weeks. Registrations of new automobiles have picked up somewhat, and department store sales show some improvement. Total nonagricultural employment rose slightly in the district states, but manufacturing employment continued its decline. The seasonally adjusted Texas Industrial Production Index for February remained essentially unchanged from that in January. And oil allowables announced for April were unchanged from March. The district petroleum industry is believed to be producing close to capacity at these rates. Dry weather conditions remain the principal concern for agricultural operations over most areas of the district. Except for the extreme eastern part of the district, the condition of pastures and ranges as well as cattle has fallen below the ten-year average.

TWELFTH DISTRICT - SAN FRANCISCO

The general opinion of businessmen and bankers in the twelfth district is that the economy is beginning a period of gradual expansion. Some sectors are experiencing more noticeable rates of growth, especially compared to recent months--residential housing and wood products are examples--but other sectors continue to experience a slow rate of activity. There is no sign of a major increase in business capital expenditures. Overall, despite some areas of strength, the recovery is proceeding at only a moderate pace.

Residential housing construction is reported as having favorable prospects in most of the district. Idaho and Utah have a strong demand for single-family housing and also for apartments. Vacancy rates in cities like Boise and Salt Lake City are below one percent. In the Pacific Northwest housing starts are recovering and the demand for mortgages is increasing. The one big exception is Seattle, as would be expected, where the fall in aerospace employment continues to exert its depressing effects. In that market, apartment vacancies are in the 10-15 percent range. But for other parts of Washington and in the State of Oregon, residential construction is expected to be up by 1% to 6% over 1970, depending on the city.

A similar pattern of greater residential construction activity is found in California. The emphasis of builders is on low to medium-priced units, both houses and apartments. Higher priced houses are selling relatively slowly in most areas. Arizona is maintaining record rates of construction activity with continued low vacancy rates.

Because of the slow increase in housing demand in the past year and the consequent problems for builders, the amount of speculative building is relatively small in most states. Even with the recovery of demand, builders are tending to limit themselves to "pre-sales." The few speculative houses are usually model homes or the result of efforts of larger builders to keep their crews together. Part of this situation is a reluctance of builders to overextend themselves in view of difficulties they have had in the past, and part is due to difficulties in obtaining financing for speculative projects.

On the other hand, speculative builders have continued their activity in parts of Orange and Ventura counties in southern California and around San Jose in the north. These areas already have above-average vacancy rates and they have rising aerospace unemployment, so that an overbuilt situation may arise. One Director reported some concern that Arizona, which has attracted large national builders, may find itself facing an overbuilt situation later in the year. With these exceptions, the level of construction is being closely geared to demand.

Construction costs are expected by most Directors to rise as new wage contracts are negotiated. Even in areas with lower levels of construction activity, unions are expected to press for increases. The national pattern of wage increases, it is suggested, provides an example that tends to be followed regardless of local conditions, and quick settlements may be difficult to achieve locally. Expected annual increases in wage contracts range from 5 to 10 percent.

Retail sales are showing a mixed trend that is consistent, on balance, with a gradual rate of economic expansion. Sales in some areas are described as disappointing, and consumers' attitudes as cautious. One southern California banker reports auto dealers as expressing dissatisfaction over sales, but another banker in Oregon reports that auto dealers in his area are experiencing significantly higher sales. No major increases are reported in manufacturing that would suggest a strong general expansion.

One industry that is recovering is wood products and timber, but then that industry had undergone a serious decline in 1970. A large hardward manufacturing company, benefiting from the expansion in housing production has decided to proceed with a new eastern plant, the construction of which had been postponed but other industries are still experiencing difficulties. One national food company, facing higher labor and other costs, is searching for ways of reducing numbers of employees; competitive conditions in the industry make it difficult to retrieve higher costs by raising prices. Other companies say they are maintaining cautious attitudes, especially where capital expenditures are concerned.

Bankers report little change in loan demand and most, but not all, have lowered interest rates on their time and savings deposits in line with national trends. Some individual banks have continued to offer consumer-type time certificates at their previous rate levels even though their local competitors have cut their rates. Arizona is one area where both banks and savings and loan associations have not cut rates on passbook savings accounts. A high local demand for funds has reduced the pressures to cut the rates paid depositors. In other states, most banks have cut deposit rates.